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NORTHERN TELEPHONE LIMITED

64th ANNUAL REPORT

1968

TRANSFER AGENTS

CROWN TRUST COMPANY,
Toronto, Montreal, Winnipeg and Calgary

TRUSTEES

CANADA PERMANENT TRUST COMPANY,
Toronto and Montreal

AUDITORS

KEMP & KEMP
Chartered Accountants
New Liskeard, Ontario

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE,
New Liskeard, Ontario

SIXTY - FOURTH

ANNUAL REPORT

NORTHERN TELEPHONE LIMITED

Year Ended December 31, 1968

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Transfer Agent, Trustees, Auditor and Bankers	Inside Front Cover

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française de ce rapport en écrivant
au Secrétaire,
Téléphone du Nord Limitée
New Liskeard, Ontario*

Highlights of the Report

FINANCIAL RESULTS

	1968	1967
Total Operating Revenues	\$10,807,847	\$10,217,371
Operating and General Expenses	5,258,776	5,190,475
Debenture Interest and Discount	969,129	871,719
Depreciation	2,406,449	2,156,853
Income Taxes	872,321	864,578
Net Income	1,117,815	1,043,223
Dividends - Preference	409,217	409,219
Dividends - Common	566,073	562,936
Earnings per average common share	30.1	28.0

BALANCE SHEET

Gross Fixed Assets	\$53,551,164	\$48,560,359
Net Fixed Assets	37,416,518	34,475,484
Accumulated Depreciation	16,134,646	14,084,875
Long Term Debt	16,167,500	16,394,000
Shareholders' Equity	20,676,266	20,649,631

ADDITIONAL STATISTICS

Telephones in service	97,912	94,190
Percent dial operated	95.2	94.2
Number long distance calls	5,152,324	5,224,231
Number of Central Offices	115	115
Number of employees at December 31st	766	846
Number of shareholders	2,845	2,864

OFFICERS and DEPARTMENT HEADS

DONALD McKELVIE
President

RICHARD A. H. TAYLOR
Vice-President

J. CHAS. BURKHOLDER
Secretary-Treasurer

MURRAY W. COOPER
General Manager

ROY B. BARNARD
Gen. Commercial Mgr.

NORMAN E. CURRIE
General Plant Manager

PATRICK S. HOGAN
Traffic Department Mgr.

RONALD GIBBINS
Chief Engineer

ALPHONSE PICHE
*Plant Manager -
Northern Quebec
Telephone Inc.*

J. ROSAIRE LEVESQUE
*Commercial Manager -
Northern Quebec
Telephone Inc.*



D. McKELVIE
New Liskeard, Ont.



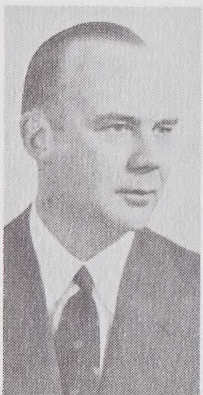
R. A. H. TAYLOR
New Liskeard, Ont.



RENÉ BUISSON
Rouyn, Qué.



C. DUHAMEL
Qué., Qué.



R. T. HUTCHINSON
New Liskeard, Ont.



W. R. RAMSAY
New Liskeard, Ont.



J. C. THACKRAY
Ottawa, Ont.



ORLAND TROPEA
Montreal, Qué.



L. L. WOODS
New Liskeard, Ont.

DIRECTORS

RENÉ BUISSON

President, René Buisson Limited

CLAUDE DUHAMEL

Vice-President, Bell Canada

ROWAN T. HUTCHINSON

Insurance Broker

DONALD McKELVIE

President, Northern Telephone Ltd.

W. RALPH RAMSAY

Queen's Counsel

RICHARD A. H. TAYLOR

Chairman, Morissette Diamond Drilling Limited

Vice-Pres., Northern Telephone Ltd.

JAMES C. THACKRAY

Vice President, Bell Canada

ORLAND TROPEA

Vice President, Bell Canada

LORNE L. WOODS

President, Northern Hardware Distributors Limited

THE DIRECTORS' REPORT TO THE SHAREHOLDERS



1968 was a year of accomplishment in the face of a difficult operating situation created mainly by a two-month strike. Nevertheless, Net Earnings increased by 2 cents a share over the previous year.

Total Revenues were up 5.77% due almost entirely to a 9.5% increase in Local Exchange Revenues. Higher revenues also accrued from services provided to the Department of National Defence.

On the other hand, Long Distance Revenues were very disappointing. Due partly to the strike and partly to the moderate level of economic activity in Northern Ontario and Northwestern Quebec, long distance revenues were actually below the levels achieved in 1967.

Operating Expenses were strictly controlled and excluding depreciation were held to 1.32% above 1967 as a result of improved management methods and refined operating controls. Service to our customers was improved.

Total Capital Expenditures were approximately five million dollars, of which \$1,150,000 was spent to provide defence services. While

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some work had to be curtailed, it was possible to complete the defence commitments on schedule.

The two-month strike, the first in our Company's history, should be commented upon. The Union demands, if accepted, would have put your Company in a loss position. Management, of course, could not accept this and a strike ensued. As a Public Service, we undertook to continue to operate the system. Generally speaking, there was sympathetic understanding from customers in spite of the inconvenience they suffered from time to time. The supervisory staff deserve a great deal of credit for their efforts.

During the year an addition to our head office building was completed at New Liskeard. This provided us with much needed space and allowed us to relinquish several rented premises. A service centre complex near the town was also started, for completion early in 1969. This will allow us to concentrate certain departments at one location, freeing us from scattered owned and rented premises, and thereby boost efficiency. A service centre at Rouyn-Noranda is planned for 1969. This will give us adequate warehousing and servicing facilities at those two places as well as at Timmins and Val d'Or.

We continued during the year to add to cable plant and modern dial equipment at various locations. Surveys of customer acceptance of Touch Tone dial service were conducted. New rates were approved for Extended Area Service, and such service will be expanded in the coming years.

For quite some time officials of your Company have been concerned about the poor profit performance of the areas in Ontario to the West of Hearst. Our studies demonstrated that these operations were relatively expensive and slow growing. As Bell Canada was providing most of

the service in those areas, it was decided to sell our "Western Assets", including the Algoma Central Telephone Company Limited, to that company for a consideration of approximately six million dollars. In December 1968 a special general meeting of shareholders was called for that purpose, and the transaction ratified by the shareholders. This should have a beneficial effect on your Company's earnings in future years. All our employees in those areas accepted employment with Bell Canada.

Over the past few years there has been considerable talk about the "Forgotten North". It is certainly true that we have not enjoyed the buoyant growth pattern of the more southerly portion of Ontario and Quebec, nor are there nearly sufficient employment opportunities for our educated young people. For mainly economic reasons, we have not been able to attract secondary industry to any large extent. This region's economy, therefore, depends largely on the primary industries.

Success of your Company is to some extent directly influenced by the finding of new mines and the development of forest and power resources. The establishment of additional secondary manufacturing plants to process the semi-raw materials we ship would drastically improve the over-all economy of the areas in which we serve. We are happy to report some progress in these respects but much remains to be done.

Respectfully submitted on behalf of the Board.

D. McKELVIE,
President.

New Liskeard, Ontario.
February 25th, 1969.

NORTHERN TELEPHONE LIMITED

and subsidiary companies

CONSOLIDATED INCOME STATEMENT

	YEAR 1968	YEAR 1967
OPERATING REVENUES		
Local service	\$ 6,400,022	\$ 5,846,684
Long distance service	4,243,964	4,276,242
Miscellaneous	163,861	94,445
	<u>10,807,847</u>	<u>10,217,371</u>
OPERATING EXPENSES		
Maintenance	1,877,695	2,159,297
Depreciation	2,406,449	2,156,853
Traffic	1,009,624	1,048,943
Marketing and commercial	490,389	594,800
Other	1,881,068	1,387,435
	<u>7,665,225</u>	<u>7,347,328</u>
Net Operating Revenues	<u>3,142,622</u>	<u>2,870,043</u>
OPERATING TAXES		
Income taxes (Note 2)	872,321	864,578
Other taxes	344,956	303,163
	<u>1,217,277</u>	<u>1,167,741</u>
Operating Income	<u>1,925,345</u>	<u>1,702,302</u>
OTHER INCOME		
Miscellaneous	473,375	431,432
Total Income before Interest Charges	<u>2,398,720</u>	<u>2,133,734</u>
INTEREST CHARGES		
Interest on long term debt	948,141	851,593
Other interest	311,776	218,792
Amortization of discount and expense on long term debt	20,988	20,126
	<u>1,280,905</u>	<u>1,090,511</u>
NET INCOME	<u>\$ 1,117,815</u>	<u>\$ 1,043,223</u>
NET INCOME PER COMMON SHARE (Based on average number of shares outstanding)	30.1 cents	28.0 cents

CONSOLIDATED

ASSETS

	December 31, 1968	December 31, 1967
TELEPHONE PROPERTY		
Land, buildings, plant and equipment - at cost . . .	\$53,551,164	\$48,560,359
Deduct: accumulated depreciation	<u>16,134,646</u>	<u>14,084,875</u>
	<u>37,416,518</u>	<u>34,475,484</u>
 Excess of purchase price over book value of subsidiary companies (Note 5)	 <u>4,238,803</u>	 <u>4,474,003</u>
 INVESTMENTS		
Sundry investments - at cost	19,148	20,492
Special refundable tax	<u>78,824</u>	<u>116,244</u>
	<u>97,972</u>	<u>136,736</u>
 CURRENT ASSETS		
Cash	—	169,651
Accounts receivable	2,543,116	1,767,742
Materials and supplies - at cost	995,499	815,517
Prepayments	<u>158,199</u>	<u>212,223</u>
	<u>3,696,814</u>	<u>2,965,133</u>
 DEFERRED CHARGES		
Unamortized discount and expense on long term debt	<u>269,411</u>	<u>290,201</u>
 TOTAL ASSETS	 <u>\$45,719,518</u>	 <u>\$42,341,557</u>

On behalf of the Board of Directors:

D. McKELVIE, *Director*

R. A. H. TAYLOR, *Director*

BALANCE SHEET

LIABILITIES

	December 31, 1968	December 31, 1967
SHAREHOLDERS' EQUITY		
Capital Stock		
Preference (Note 6)	\$ 7,564,000	\$ 7,564,000
Common (Note 7)	10,707,472	10,603,660
Retained Earnings	2,404,794	2,481,971
	<u>20,676,266</u>	<u>20,649,631</u>
 LONG TERM DEBT (Note 8)	 <u>16,167,500</u>	 <u>16,394,000</u>
 CURRENT LIABILITIES		
Bank loan - unsecured	6,000,000	2,800,000
Bank overdraft - unsecured	117,223	—
Accounts payable	970,559	894,387
Debentures due in following year, less		
purchased to date	130,000	126,000
Dividends payable	250,404	249,211
Taxes accrued	229,793	251,758
Interest accrued	191,327	190,387
	<u>7,889,306</u>	<u>4,511,743</u>
 DEFERRED CREDITS		
Income tax (Note 2)	986,446	745,890
Employees' Stock Plan	—	40,293
	<u>986,446</u>	<u>786,183</u>
 TOTAL LIABILITIES	 <u>\$45,719,518</u>	 <u>\$42,341,557</u>

NORTHERN TELEPHONE LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	YEAR 1968	YEAR 1967
BALANCE AT BEGINNING OF YEAR	\$ 2,481,971	\$ 2,905,597
<i>Add:</i> Net Income	1,117,815	1,043,223
Miscellaneous	15,718	—
	<u>3,615,504</u>	<u>3,948,820</u>
<i>Deduct:</i>		
Amortized portion of excess purchase price over book value of subsidiaries (Note 5)	235,200	235,200
Income Tax assessments, prior years	220	259,252
Dividends - Preference	409,217	409,219
- Common	566,073	562,936
Miscellaneous	—	242
	<u>1,210,710</u>	<u>1,466,849</u>
BALANCE AT END OF YEAR	<u>\$ 2,404,794</u>	<u>\$ 2,481,971</u>

Consolidated Statement of Source and Disposition of Funds

	YEAR 1968	YEAR 1967
SOURCE OF FUNDS		
Operations		
Net Income	\$ 1,117,815	\$ 1,043,223
<i>Add:</i> Depreciation, deferred tax and other transactions not requiring an outlay of funds (net)	2,200,784	2,008,116
	<u>3,318,599</u>	<u>3,051,339</u>
Proceeds from Stock Issue	—	1,997,004
Proceeds from Employees' Stock Plan	63,519	174,343
Proceeds from Debenture Issue	—	5,000,000
Special Refundable Tax	37,420	—
Miscellaneous items	17,062	120,476
	<u>\$ 3,436,600</u>	<u>\$10,343,162</u>
DISPOSITION OF FUNDS		
Construction Expenditures		
Gross Construction Expenditures	\$ 5,347,483	\$ 5,831,917
<i>Less:</i> Charges to construction not requiring an outlay of cash	467,011	431,432
	<u>4,880,472</u>	<u>5,400,485</u>
Dividends - Preference	409,217	409,219
- Common	566,073	562,936
Redemption of Debentures	226,500	408,500
Acquisition of Shares - La Sarre Téléphone Inc.	—	2,033,500
Income Tax assessment - prior years	220	259,252
Special Refundable Tax	—	34,308
Increase (Decrease) in working capital	(2,645,882)	1,145,001
Miscellaneous items	—	89,961
	<u>\$ 3,436,600</u>	<u>\$10,343,162</u>

NORTHERN TELEPHONE LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The accounts of the subsidiary companies, all of which are wholly owned, have been consolidated with those of the parent company, Northern Telephone Limited. These subsidiaries are:

Northern Quebec Telephone Inc.

Algoma Central Telephone Company, Limited

2. INCOME TAXES

Commencing January 1, 1966, the Company adopted the "Deferred Income Tax" method of recording the savings resulting from the excess of capital cost allowance claimed for income tax purposes over recorded depreciation. The deferral for the year ended December 31, 1968, was \$240,556.

If the Company had used the "Deferred Income Tax" method for the years prior to 1966, the accumulated deferred income tax at 31 December, 1968 would be \$2,101,236.

3. DEPRECIATION

Depreciation has been charged in the accounts at rates designed to spread this loss uniformly over the life of the property.

4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Year 1968, Total remuneration received by the Directors from the Company and its subsidiary companies, including salaries of those Directors who were employees of the companies was \$66,900. Total remuneration received from the companies by senior officers who were not Directors of the Company amounted to \$63,945.

5. EXCESS OF PURCHASE PRICE OVER BOOK VALUE OF SUBSIDIARY COMPANIES

The excess of purchase price over book value is being amortized over a period of time commencing in 1967 through charges to retained earnings.

6. CAPITAL STOCK - PREFERENCE AT DECEMBER 31, 1968

Authorized - with a par value of \$20.00 each issuable in series

First Preference	500,000 Shares	.	.	.	.		\$10,000,000
Second Preference	250,000 Shares	.	.	.	.	\$ 5,000,000	
<i>Deduct:</i> Redeemed	121,800 Shares	.	.	.	.	<u>2,436,000</u>	
	128,200 Shares						<u>2,564,000</u>
							<u>\$12,564,000</u>

Issued - FIRST PREFERENCE

75,000	5½%	cumulative redeemable preference shares - Series "A"	.	.	.	\$ 1,500,000
50,000	5½%	cumulative redeemable preference shares - Series "B"	.	.	.	1,000,000
100,000	5½%	cumulative redeemable preference shares - Series "C"	.	.	.	2,000,000
25,000	5½%	cumulative redeemable preference shares - Series "D"	.	.	.	500,000

Issued - SECOND PREFERENCE

7,853	5%	cumulative redeemable preference shares - Series "A"	.	.	.	157,060
120,347	5¼%	cumulative redeemable, convertible, preference shares - Series "B"	.	.	.	<u>2,406,940</u>
		Total outstanding preference shares	.	.	.	<u>\$ 7,564,000</u>

7. CAPITAL STOCK - COMMON AT DECEMBER 31, 1968

Authorized - 5,000,000 shares of no par value to be issued for a consideration not to exceed \$15,000,000

	Number of Shares	Consideration
Issued - at January 1, 1968	2,349,987	\$10,603,660
issued in 1968:		
for cash	17,302	103,812
at December 31, 1968	<u>2,367,289</u>	<u>\$10,707,472</u>

Conversion Privileges — Second Preference Shares into Common

Series "B" - In June 1966, 150,000 5¼% cumulative, redeemable, convertible, second preference shares, Series "B", were issued, with a par value of \$20.00 each. These shares are convertible, at the option of the holder up to December 1, 1971, at the rate of two common shares for each Series "B" second preference share together with a simultaneous payment of \$5.00 to close of business June 1, 1969, and thereafter at \$8.00 to December 1, 1971. As at December 31, 1968, 29,653 shares had been converted into 59,306 common shares leaving a balance of 120,347 shares which may be converted.

8. LONG TERM DEBT

NORTHERN TELEPHONE LIMITED

20-year Sinking Fund Debentures

MATURITY DATE	RATE OF INTEREST	SERIES	
September 1, 1971	4½%	A	\$ 414,500
April 1, 1975	4%	B	865,500
May 1, 1978	5¼%	C	1,572,000
January 2, 1981	6%	D	1,839,000
December 1, 1981	5½%	E	1,741,000
May 1, 1983	5¾%	F	2,847,500
December 15, 1984	5⅝%	G	1,918,000
May 1, 1987	6½%	H	4,950,000
			<u>16,147,500</u>

NORTHERN QUEBEC TELEPHONE INC.

First Mortgage Sinking Fund Bonds

May 1, 1975	6%	B	150,000
			<u>16,297,500</u>

Deduct: Maturing in 1969, after taking into account

debentures purchased for redemption in excess of requirements

130,000

TOTAL LONG TERM DEBT

\$16,167,500

9.

In January, 1969 fixed assets of the Company representing the depreciated cost of land, buildings, plant and equipment of the western division were sold to Bell Canada for a consideration of approximately \$6,000,000. The exact amount has not been determined at this date.

AUDITORS' REPORT

To the Shareholders of
Northern Telephone Limited:

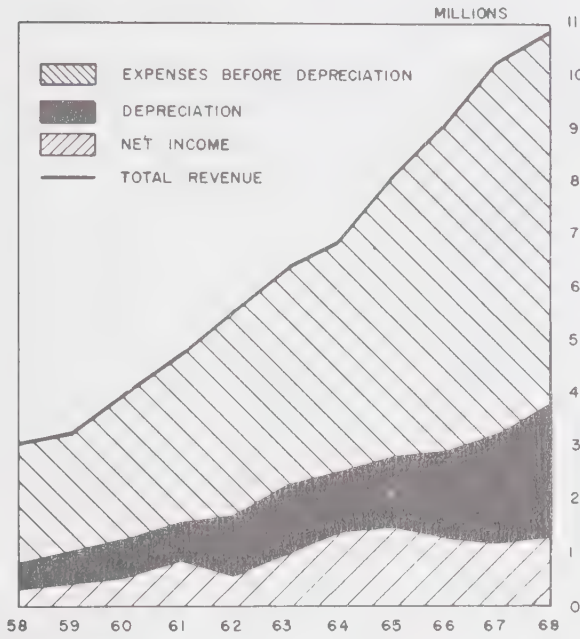
We have examined the consolidated balance sheet of NORTHERN TELEPHONE LIMITED as at December 31, 1968 and the consolidated income statement, statement of retained earnings and statement of source and disposition of funds for the year then ended. Our examination of the financial statements of Northern Telephone Limited and the subsidiary of which we are auditors included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

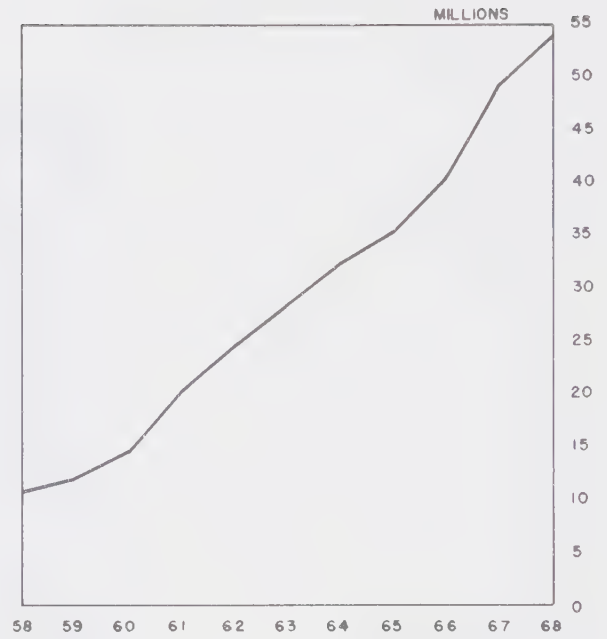
New Liskeard, Ontario,
February 2, 1969.

KEMP & KEMP,
Chartered Accountants

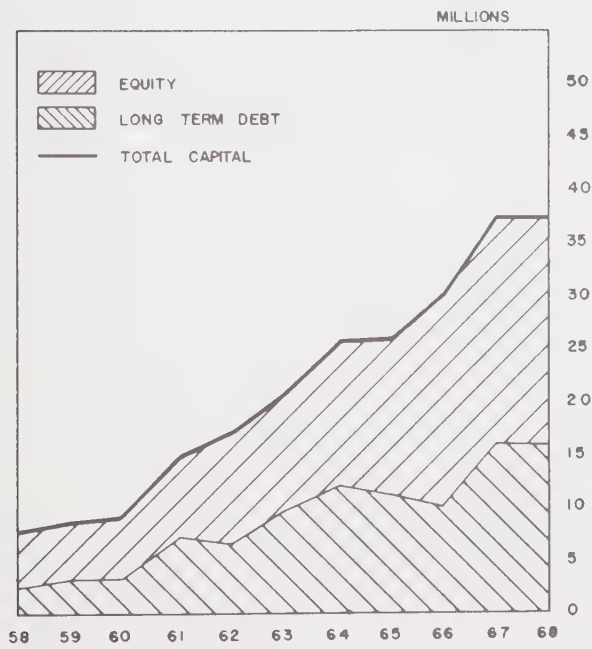
REVENUE , EXPENSES
AND
NET INCOME



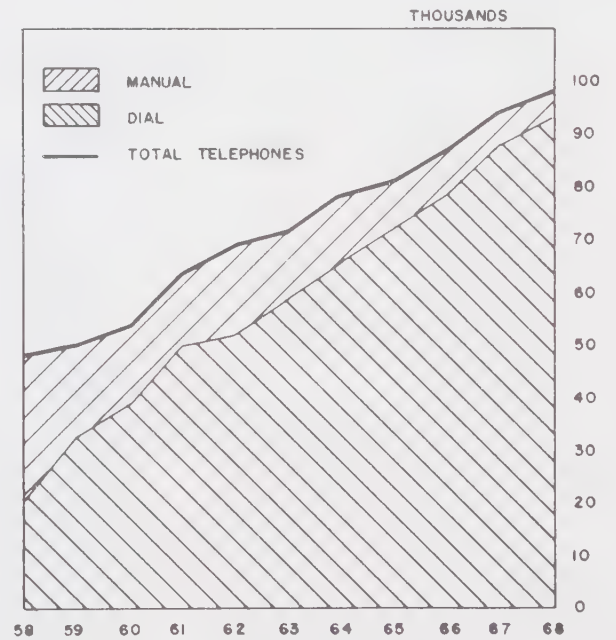
TELEPHONE PLANT



CAPITAL EMPLOYED



STATION GROWTH



STATISTICS

(Including All

	1968	1967	1966	1965
NUMBER OF TELEPHONES	97,912	94,190	85,705	81,348
Business	30,083	28,571	26,836	25,367
Residence	67,829	65,619	58,869	55,981
Percentage Residence of Total	69.3	69.7	68.5	68.8
Percentage Dial of Total	95.2	94.2	91.8	89.2
NUMBER OF CENTRAL OFFICES	115	115	108	109
MILES OF POLE LINES	4,134	4,110	3,914	3,825
MILES OF WIRE	297,339	282,232	251,304	235,834
LONG DISTANCE CALLS	5,152,324	5,224,231	4,432,847	4,113,808
Company Lines	2,560,812	2,672,179	2,137,615	1,927,245
Connecting Companies' Lines	2,591,512	2,552,052	2,295,232	2,186,563
TOTAL INVESTMENT PLANT & EQUIP.*	\$53,551,164	\$48,560,359	\$41,708,885	\$36,062,388
Plant & Equip. Less Dep.	\$37,416,518	\$34,475,484	\$29,980,665	\$25,849,376
OPERATING REVENUES	\$10,807,847	\$10,217,371	\$ 8,868,056	\$ 7,856,925
NUMBER OF EMPLOYEES				
Men	374	416	486	503
Women	392	430	389	245
Total Employees	766	846	875	748
TOTAL PAYROLL				
(Operations)	\$ 2,868,444	\$ 3,094,270	\$ 2,987,855	\$ 2,411,478
NUMBER OF SHAREHOLDERS				
In Canada	2,730	2,771	2,890	5,228
Elsewhere	115	93	94	286
Total Shareholders	2,845	2,864	2,984	5,514

*ADJUSTED — Excess of purchase price over book value of subsidiary companies formerly included in assets now shown separately on balance sheet.

1959 - 1968

(subsidiaries)

1964	1963	1962	1961	1960	1959
77,498	71,681	67,066	63,625	54,457	50,375
24,115	22,039	20,610	19,386	16,190	14,791
53,383	49,642	46,456	44,239	38,267	35,584
68.8	69.3	69.3	69.5	70.3	70.6
84.4	82.8	78.0	77	70.7	65.9
103	91	84	74	61	48
3,752	3,259	3,050	2,852	2,160	2,076
215,023	200,648	188,808	160,722	129,854	113,462
3,306,631	3,119,205	2,790,736	2,527,267	2,073,152	2,196,978
1,552,586	1,460,572	1,407,856	1,288,112	1,030,591	1,227,046
1,754,045	1,658,633	1,382,880	1,239,155	1,042,561	969,932
\$32,572,672	\$27,336,419	\$24,336,419	\$20,043,411	\$14,181,328	\$12,133,732
\$23,212,665	\$19,471,665	\$17,927,815	\$14,310,955	\$ 9,969,919	\$ 8,575,482
\$ 6,746,203	\$ 6,364,850	\$ 5,322,034	\$ 4,505,493	\$ 3,674,805	\$ 3,177,328
393	313	319	282	194	203
357	336	317	315	274	324
750	649	636	597	468	527
\$ 2,088,215	\$ 1,894,873	\$ 1,602,358	\$ 1,416,262	\$ 1,286,450	\$ 1,281,712
4,934	4,604	4,156	3,881	2,665	2,652
300	403	398	346	191	64
5,234	5,007	4,554	4,227	2,856	2,716



Head Office Complex, New Liskeard, Ontario.



